

Message Text

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ACTION NEA-10

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R 231050Z FEB 76
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 4173
INFO USDA WASHDC

LIMITED OFFICIAL USE NEW DELHI 2667

FROM AGATT FOR USDA PASS FAS

FOLLOWING REPEAT BOMBAY 0422 SAME ACTION NEW DELHI
20 FEB 76.

QUOTE:

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FOR AG ATTACHE

EO 11652: NA
TAGS: ETRD EAGR
SUBJ: CONGRESSIONAL HEARING ON COFFEE PRICE INCREASES

REF: STATE 34044, NEW DELHI 2257

1. COFFEE INFORMATION BELOW FOLLOWS SAME ORDER
OF TOPICS REQUESTED
IN REFTEL.

A) (1) MOST OF INDIAN COFFEE RETAILED IN DOMESTIC MARKET IS SOLD AS
FINE GROUND POWDER, IN PACKETS RANGING FROM 100 TO 1,000 GRAMS. IN
LARGER CITIES THIS TYPE COFFEE POWDER MAY BE AVAILABLE IN TWO OR
THREE DIFFERENT QUALITIES SUCH AS: (?) RETAILER'S OWN SPECIAL
BLEND, (2) PLANTATION A, AND (3) MISCELLANEOUS CHEAPER BLENDS.
CURRENT RETAIL PRICES FOR BLENDED COFFEE POWDER OR ROASTED COFFEE
BEANS, RANGE FROM 69 TO 102 CENTS PER POUND, WITH PLANTATION A
AVERAGING AROUND 86 CENTS PER POUND (CONVERTED AT RATE OF RS 8.87
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TO \$1.00). UNROASTED OR GREEN COFFEE BEANS WHERE AVAILABLE ARE

USUALLY RETAILED AT FIVE TO TEN CENTS PER POUND LOWER. COFFEE POWDER IS PROMOTED THROUGH COFFEE BOARD'S DEPOTS AND COFFEE HOUSES IN SELECTED AREAS OF COUNTRY CURRENTLY AT 60 CENTS PER POUND, TO MAINTAIN VIABLE DOMESTIC CONSUMPTION SHOULD FUTURE EXPORT DEMAND AGAIN SLACKEN.

(II) THERE HAVE BEEN NO SIGNIFICANT SPURTS IN RETAIL COFFEE PRICES DURING PAST EIGHT MONTHS. REVIEW BY MAJOR CONSUMING AREAS FOR PAST EIGHT MONTHS REVEALS AN INCREASE OF ABOUT FIVE TO SEVEN PERCENT IN MOST AREAS WITH AVERAGE BELOW FIVE PERCENT, WHILE RETAIL PRICES IN CITIES SUCH AS MYSORE AND MADRAS ACTUALLY RECORDED A DECLINE OF ABOUT FIVE PERCENT. STABILITY IN RETAIL PRICES OF COFFEE COULD BE PARTLY ATTRIBUTED TO EMERGENCY RULES IMPOSED LAST JUNE BUT IS MORE LIKELY DUE TO BAUC INABILITY OF INDIAN CONSUMER, PARTICULARLY IN MIDDLE CLASSES, TO MEET PRICES. COFFEE MERCHANTS HAVE ENOUGH SCOPE TO MANIPULATE THEIR PROFIT MARGIN BY INCREASING PERCENTAGE OF CHEAPER COFFEE IN THEIR BLENDS WITHOUT RESORTING TO PRICE INCREASES. IF LOCAL CONSUMER HAD TO PAY INTERNATIONAL PRICES PREVAILING AT MOMENT HE WOULD BE PAYING MORE THAN DOUBLE CURRENT DOMESTIC PRICES.

B)(I) FOLLOWING ARE AVERAGE PRICES, INCLUSIVE OF DELIVERY CHARGES AND TAXES, PAID BY ROASTERS/PROCESSORS IN BOMBAY FOR COFFEE IN BULK QUANTITIES DURING PRE-FROST AND POST-FROST PERIODS BY VARIETIES CONVERTED TO CENTS PER POUND:

JUNE 75 AVER/DEC 75 AVER/JAN 20 1976

PLANTATION A 58.1/58.5/60.1

ARABICA CHERRY AB 51.2/55.0/55.9

ROBUSTA CHERRY AB 47.0/49.4/54.5

DURING MID-FEB 1976 PRICES ARE REPORTED TO HAVE BEEN ABOUT 1.4 CENTS PER POUND MORE SINCE JAN 20.

(II) APPROXIMATELY SAME PRICE RELATIONSHIPS EXIST IN OTHER AREAS OF INDIA WITH SOME VARIATION IN TRANSPORT CHARGES AND LOCAL TAXES.

FOR EXAMPLE, COFFEE ROASTERS IN BANGALORE DURING SAME PERIOD COMPARISON PAID DURING JUNE AND

EC 1976 RESPECTIVELY AVERAGE OF

48.7 AND 49.0 CENTS PER POUND FOR PLANTATION A, 42.8 AND 46.0 CENTS PER POUND FOR ARABICA CHERRY AB, AND 39.2 AND 41.3 CENTS PER POUND FOR ROBUSTA CHERRY AB.

C) (I) THE GOI POLICY HAS ALWAYS BEEN TO ENCOURAGE EXPORTS AND COFFEE BOARD'S INTENTIONS HAVE BEEN AND CONTINUE TO BE FOCUSED IN THAT DIRECTION, ESPECIALLY NOW AS VIGOROUS EFFORTS ARE BEING MADE TO LIMITED OFFICIAL USE

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ACHIEVE HIGH LEVEL OF EXPORTS IN ORDER TO JUSTIFY A LION'S SHARE OF THE WORLD'S EXPORT QUOTA UNDER NEW INTERNATIONAL COFFEE AGREEMENT. HOWEVER, AT SAME TIME, WITH RAPIDLY CHANGING WORLD COFFEE SITUATION, EFFORTS CONTINUE TO BE MADE TO MAINTAIN A REASONABLE DOMESTIC CONSUMPTION SHOULD FOREIGN DEMAND FOR INDIAN COFFEE FALTER. UNLIKE NOMINAL INCREASES FOR COFFEE SECURED IN DOMESTIC POOL SALES, AVERAGE PRICES IN EXPORT OPEN AUCTIONS DURING JUNE AND DEC 1975 COMPARISON ROSE SHARPLY BY NEARLY 50 PERCENT FOR

PLANTATION A TO MIMI CENTS FROM 46.2 CENTS PER POUND, ALMOST 80 PERCENT FOR ARABICA CHERRY AB TO 65.2 CENTS FROM 36.8 CENTS PER POUND, AND BY NEARLY 100 PERCENT FOR ROBUSTA CHERRY AB TO 66.6 CENTS FROM 33.5 CENTS PER POUND.

(II) WHILE THERE HAS BEEN NO BASIC CHANGE FROM PRE-FROST POLICIES ON FEB 12, 76, THE GOI ANNOUNCED AN INCREASE IN EXPORT DUTY ON COFFEE FROM RS.50S TO RS.300 PER QUINTAL (US CENTS 2.56 TO 15.34 CENTS PER POUND). HOWEVER, THIS SHOULD NOT BE CONSTRUED AS A MEASURE TO DISCOURAGE EXPORTS, BUT RATHER AS MEANS TO ABSORB SOME OF PROFITS GENERATED BY COFFEE EXPORTS, AND AT SAME TIME PROVIDE CUSHION FOR POSSIBLE LOSSES ARISING FROM DOMESTIC SALES. PRIOR TO JULY 75, AVERAGE PRICES SECURED IN EXPORT AUCTIONS WERE ALWAYS, AT LEAST IN RECENT YEARS COMPARISON, BELOW AVERAGE PRICES SECURED IN DOMESTIC POOL SALES.

D) (I) THE 75-76 SC QUOTE OF RATES FOR PAYMENTS TO SMALL GROWERS ANNOUNCED BY COFFEE BOARD, FOR FAIR AVERAGE QUALITY COFFEE, IN US CENTS PER POUND, WITH 74-75 COMPARISON IN BRACKETS, PLANTATION A IS GIPZVEAS 32.7 (28.6), ARABIC CHERRY AB AT 28.6 (24.3) AND ROBUSTA CHERRY AB AT 25.4 (21.5), REPRESENTING AN INCREASE OF 14.3 PERCENT, 17.7 PERCENT AND 18.1 PERCENT RESPECTIVELY, IN VIEW OF POLICY TO SUPPORT SMALL GROWERS THESE PAYMENT RATES WOULD BE SLIGHTLY HIGHER THAN THOSE GIVEN TO LARGE GROWERS.

(II) PRICES PAID TO PRODUCERS IS GIVEN IN STAGES, BEGINNING WITH AN INITIAL PAYMENT AND EXTENDING THROUGHOUT SEASON, BASED ON POINTS ALLOTTED TO QUALITY AND GRADE OF COFFEE POOLED. PRICE PER POINT IS FIXED BY COFFEE BOARD AT BEGINNING OF SEASON, GUARANTEEING A CERTAIN MINIMUM RETURN. AT END OF SEASON IF BOARD'S REALISATIONS ARE ABOVE EXPECTATIONS, A BONUS IS ACCORDED TO PRODUCERS BASED ON SEASON'S PERFORMANCE. AT SAME TIME PROPORTIONATE DEDUCTIONS ARE MADE FOR UNDER-DRIAGE, POOR QUALITY, FOREIGN MATTER, ETC AND THUS ONLY AT VERY END OF SEASON ACTUAL RETURN IS DETERMINED.

E) THE GOI CONTINUES TO ENCOURAGE MORE ACREAGE UNDER COFFEE BUT NOT NECESSARILY AS RESULT OF BRAZIL'S CROP FAILURE ALTHOUGH FURTHER LIMITED OFFICIAL USE

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OBVIOUSLY STIMULATED, BUT AS A CONTINUING EFFORT TO INCREASE FOREIGN EXCHANGE EARNINGS. TO ENCOURAGE PRODUCTION, VARIOUS DEVELOPMENTAL SCHEMES HAVE ALREADY BEEN IN OPERATION FOR SOME YEARS NOW, AND ARE ANNUALLY BEING MODIFIED ACCORDING TO NEEDS, SUCH AS:

(1) INTENSIVE CULTIVATION LOAN SCHEME, (2) CROP HYPOTHECATIONS LOAN SCHEME, (3) EQUIPMENT HIRE-PURCHASE SCHEME, (4) REPLANTING LOAN SCHEME, (5) LOANS FOR SPECIAL DEVELOPMENT MEASURES, (6) EXTENSIVE CULTIVATION LOAN SCHEME, AND (7) FERTILIZERS AND PLANT PROTECTION ALLOTMENTS. THESE SCHEMES WILL UNDOUBTEDLY BE FURTHER STRENGTHENED TO TAKE ADVANTAGE OF RECENT DEVELOPMENTS.

COURTNEY

UNQUOTE.

SAXBE

NOTE BY OC/T: MESSAGE AS RECEIVED.

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